

## STATE BOARD OF LAND COMMISSIONERS

Dirk Kempthorne, Governor and President of the Board  
Pete T. Cenarrusa, Secretary of State  
Alan G. Lance, Attorney General  
Keith Johnson, Acting State Controller  
Marilyn Howard, Superintendent of Public Instruction

Winston A Wiggins, Secretary to the Board

### Final Minutes Regular Land Board Meeting October 8, 2002

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, October 8, 2002 in Boise, Idaho. The meeting began at 10:30 a.m. The Honorable Dirk Kempthorne presided. The following members were present:

Honorable Secretary of State Pete T. Cenarrusa  
Honorable Acting State Controller Keith Johnson  
Honorable Superintendent of Public Instruction Marilyn Howard

Secretary to the Board Winston A Wiggins

Attorney General Alan Lance was absent from this meeting.

#### • **CONSENT AGENDA**

**Director Wiggins provided background information on the Consent Agenda items.**

**A motion was made by Secretary of State Cenarrusa to approve the Consent Agenda, with Agenda Item #6 being moved to the Regular Agenda. Superintendent Howard seconded the motion. The motion carried on a vote of 4-0, with Attorney General Lance being absent for this vote.**

#### **1. Director's Report – approved**

- A. Interest Rate on Department Transactions – September 2002
- B. Bureau of Surface and Mineral Resource, Minerals Section, Official Transactions – August 2002
- C. Bureau of Real Estate, Land Sale Section, Official Transactions – September 2002
- D. Bureau of Real Estate, Easement Section, Official Transactions – September 2002
- E. Bureau of Surface and Mineral Resources, Range Management and Surface Leasing Section, Official Transactions – September 2002
- F. Timber Sale Official Transactions – August 28, 2002 through September 25, 2002
- G. Timber Sale Activity Report
- H. Fire Report
- I. Spirit Lake Update

***Spirit Lake Update:*** The bottom seal of Spirit Lake has been leaking for many years. Currently, a project is underway to attempt to plug the leak. The project should be completed this year.

**2. Timber Sales – Staffed by Bob Helmer, Chief, Bureau of Forest Management – approved**

A. Gold Cup II	CR-2-0206	4,500 MBF
B. Rusty Dodge	CR-2-0224	5,200 MBF
C. N. Fork Tyson Creek	CR-3-0436	4,060 MBF

**3. Disposition of Heat Plant located at Old Penitentiary Historical District – Staffed by Scott Nichols, Chief, Bureau of Surface and Mineral Resources – approved**

*DEPARTMENT RECOMMENDATION:* That the board direct use of the 1951 Heat Plant be granted to the Idaho Botanical Gardens for phased removal, analysis and stabilization of appropriate portions of the facility.

*DISCUSSION:* Governor Kempthorne asked if the building stacks would remain. Director Wiggins stated a determination to retain the stacks will be made based on engineering and safety concerns.

*BOARD ACTION:* Approved.

**4. Hubbard Reservoir – Staffed by Tracy Behrens, Range Management Specialist, Bureau of Surface and Mineral Resources – approved**

*DEPARTMENT RECOMMENDATION:* That the board authorize the department to reclassify the lands in expired grazing lease G-6252 from General Management Zone–Range Grazing to Special Management Zone–Recreation/Wildlife Management. Upon reclassification, the department will issue a 25 (twenty-five) year Miscellaneous Lease to Ada County Parks and Waterways under specified terms.

*BOARD ACTION:* Approved.

**5. Disclaimer of Interest – Horseshoe Bend Hydroelectric Co., Boise – Staffed by Perry Whittaker, Chief, Bureau of Real Estate – approved**

*DEPARTMENT RECOMMENDATION:* That the board authorize the department to issue a disclaimer of interest for the specified parcels of accretion land, totaling 1.68 acres of the former bed of the Payette River. This disclaimer of interest will be issued contingent upon the applicant granting to the State of Idaho a disclaimer of interest for 4.00 acres of current riverbed. Also, the applicant will grant a 25.00-foot wide unimproved pedestrian easement for more than one-half (½) mile (2,900 feet) along the ordinary high water mark of the east (left) bank of the Payette River. The recommended fee is \$600.00.

*BOARD ACTION:* Approved.

**6. Proposed Department of Lands Legislation – Staffed by Winston Wiggins, Director, Department of Lands – Moved to Regular Agenda**

*DEPARTMENT RECOMMENDATION:* That the board direct the department to proceed with its legislative proposals.

*DISCUSSION:* Director Wiggins provided background information on four IDL legislative proposals.

- 1) An amendment to Idaho Code Title 38, Chapter 13, increasing the Forest Practices Act assessment from \$.05 an acre to an amount set by the Land Board but not to exceed \$.10 an acre. This assessment is paid into a dedicated account from which a portion of Forest Practices Act administration costs are paid. The cash balance in the account has been depleted to the point that an increase in collections is needed. The assessment rate has not been increased since it was first instituted in 1974. The increase in available funding will help ensure that forest practices on state, private and federal lands in Idaho are conducted so that site productivity and water quality are protected. An important element of this program is the Idaho Cumulative Watershed Effects program that is integral to TMDL development on water quality limited stream segments in forested watersheds.
- 2) An amendment to Idaho Code Title 38, Chapter 111, increasing the Fire Protection assessment from \$.45 an acre to an amount set by the Land Board but not to exceed \$.60 an acre. This assessment is paid into a dedicated account from which a portion of Fire Preparedness costs are paid. These costs include hiring and training personnel and acquiring and maintaining equipment for fire response. The cash balance in the account has been depleted to the point that an increase in collections is needed. The assessment rate was last increased in 1974.
- 3) An amendment to Idaho Code 58-307 (3) and (4) to add one parcel of public school endowment land and two parcels of state hospital south endowment land to the property available for leases with a duration of more than ten (10) years. This proposal adds the property leased to WestRock. Upon approval of this legislation, WestRock will pay to the department an additional \$600,000 in accordance with the lease agreement.
- 4) An amendment to Idaho Code 58-307 (7) exempting commercial leasing from the January 1 through December 31 lease year. A lease term for these types of uses is typically negotiated based on a yearly timeframe with monthly payments. A termination date of December 31 falls within a timeframe considered by realtor/brokers as a slow period for acquiring tenants and would limit negotiation for ensuring maximum revenue to the endowment beneficiaries. This proposal would allow more flexibility in negotiating these types of leases.

**DISCUSSION:** Secretary of State Cenarrusa asked about item #4. Director Wiggins stated item #4 would change lease terms from a calendar year to a negotiated year. Leases would be negotiated on a case-by-case basis allowing the department flexibility to obtain the best lease rate.

Acting State Controller Johnson asked if the department's position on items #1 and #2 would be to move immediately to the maximum allowable or if a recommendation would be forthcoming asking for incremental increases. Director Wiggins responded that the Forest Practices Fund, item #1, will need an immediate increase or services would have to be reduced. Fire Assessment, item #2, is less critical and allows some flexibility.

Acting State Controller Johnson observed that the timber industry in Idaho is struggling. The Land Board has an obligation to ensure that industry is being treated fairly. He appreciates industry support, at least in principal, for moving forward with legislative issues. Director Wiggins stated industry has been very supportive. The department recognizes the tough economic times and is committed to working with the industry to develop a proposal that minimizes impact while stretching cash in the fund in both cases.

**BOARD ACTION:** A motion was made by Secretary of State Cenarrusa to approve the department's recommendation. Acting State Controller Johnson seconded the motion. The motion carried on a vote of 3-0, with Secretary of State Cenarrusa, Acting State Controller Johnson and Superintendent Howard voting aye; Governor Kempthorne abstained from this vote; Attorney General Lance was absent for this vote.

## 7. Minutes – approved

A. Regular Land Board Meeting – September 10, 2002

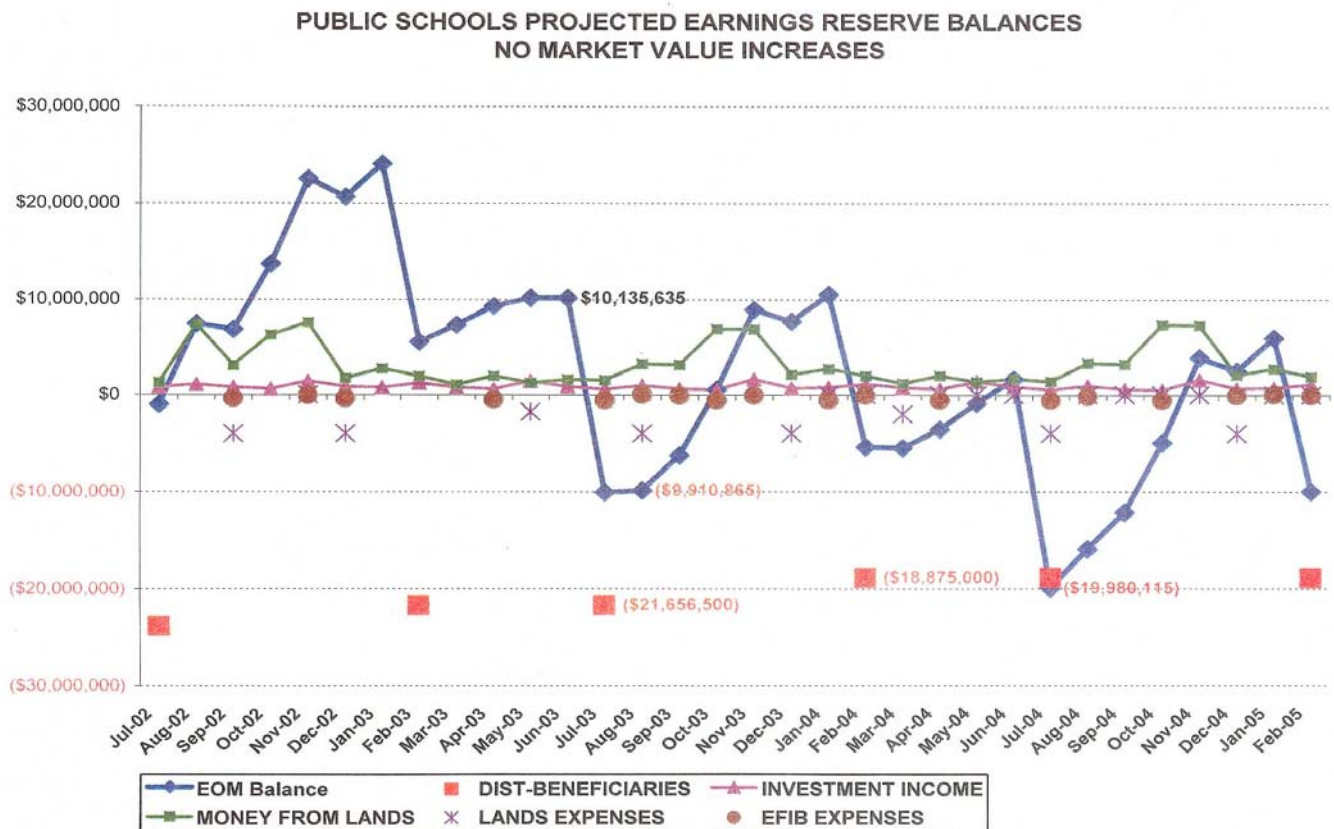
### • REGULAR AGENDA

## 8. Endowment Fund Investment Board Performance Report – Presented by Bob Maynard, PERSI

Robert Maynard is the Chief Investment Officer for the Public Employees Retirement System of Idaho.

**Mr. Maynard.** Mr. Maynard provided background information.

- **Performance of the Fund.** In general the Fund is down 13.5% for fiscal year to date. The end value as of this morning (October 8, 2002) was \$582 million with an allocation of 59% equities and 41% fixed income. Performance is as expected given the markets.
- **Temporary Deficiencies and Cash Flows.** Expenses and distributions are paid out of the Earnings Reserve account. In theory, if the account is down to zero, distributions can not be paid even though the Fund has money. The Land Board should consider asking the Attorney General's office to look at legislative or regulatory changes to allow the EFIB to pay out the money, or to do something with distributions to deal with temporary cash flow problems. The EFIB would be the initiator, but not the controller, of the process. Mr. Maynard asked the Land Board how they would like to proceed.



*DISCUSSION:* To clarify, Governor Kempthorne commented that the August 2003 payment reflects a negative balance. No increase in market value is shown through February 2005. The Fund balance builds to a positive level but again drops to a negative balance when distributions are made. Then the Fund builds back up to continue the cycle. From a financial aspect, the corpus is sound. Governor Kempthorne asked what kind of action is being sought. Mr. Maynard suggested that the Attorney General's office seek corrective action either in spreading out the distributions to allow encumbrance of the funds on the school side or seek legislation allowing payment out of a temporary negative.

- General Update on EFIB Activities.

Internal. The Endowment Fund Investment Manager position description and brochure have been distributed. EFIB staff is currently in a maintenance mode. The cash flow system has been automated. A simpler general ledger has been developed. Duties, such as the daily reports, are being assigned to internal staff.

External. Mr. Maynard feels there are several issues that need to be addressed: spending policy; consultant; manager lineup; custodian.

- Spending Policy Review. In light of new timber projections, it would be appropriate to review the Spending Policy.
- Consultant. This topic is on the table for discussion.
- Manager Lineup. Currently the Fund has six managers. It is relatively easy to see where managers are in terms of large cap growth or large cap value. Returns are generally stabilized. It would be appropriate to look at managers in conjunction with a new spending policy and asset allocation.
- Custodian. Until the Fund has a first tier custodian, it is very difficult to do everything that needs to be done. This is an issue that should be worked out with the Treasurer's office.

No action taken on this agenda item.

**9. Elk Valley Subdivision** – *Presented by Jay Biladeau, Assistant Director, Lands, Minerals, Range and Lorna Jorgensen, Deputy Attorney General, IDL*

*DEPARTMENT RECOMMENDATION:* That the board authorize the department to finalize a contract between the state and Mr. Mickelsen.

*DISCUSSION:* Governor Kempthorne asked if option #5 and a pro-rata share of the utilities would be a financial net gain for the state. Assistant Director Biladeau responded a portion of the proceeds would go to Mr. Mickelson but the remainder would go to the state.

Governor Kempthorne asked about the Land Bank. Director Wiggins stated over the next months the department will come forward with proposals. With the Land Bank in place, there is an opportunity that has not existed before. The department is building the foundation. Staff is looking at specific parcels that promise to bring good returns. Proceeds will be identified by endowment so that within the two-year period allowed by the Land Bank, the money can be used to purchase other property that would then become that same endowment's property. The two-year period can be extended with legislative approval, but property to be acquired has to be identified ahead of time in order to make sure the job is done within that timeframe. Any interest earned in the Land Bank account goes to the specified endowment.

Dr. Howard asked about the reasoning behind the department's recommendation. Assistant Director Biladeau stated that the department looked at only the actual cost for improvements on state land. Mr. Mickelsen developed the major sewer system for the whole subdivision. The

department is not considering that cost. However, the department is considering some reimbursement to Mr. Mickelsen for those services on the state parcel. A considerable difference exists between what the department is considering and what Mr. Mickelsen is requesting. Mr. Mickelsen wants to bring in his costs from the full subdivision and the department is not in agreement with that approach.

Governor Kempthorne asked if the revenue will come in over time. Assistant Director Biladeau stated the department is looking at a maximum sale of two lots per year. Revenue would come in over a minimum of a four-year period. Governor Kempthorne stated that the reason he asked the question is the two-year timeframe for the Land Bank. Assistant Director Biladeau stated the department has other parcels to consider and has other ways to put money in the Land Bank. Governor Kempthorne commented when receipts do not come in totally during the two-year period, this is a situation that might indicate a need for legislative changes to allow the department to hold that portion of the money until the last payment is received.

**BOARD ACTION:** A motion was made by Secretary of State Cenarrusa to approve the department's recommendation. Acting State Controller Johnson seconded the motion. The motion carried on a vote of 4-0, with Attorney General Lance being absent for this vote.

- **INFORMATION AGENDA**

**Director Wiggins briefed the board on the Information Agenda items. No Land Board action is required on the Information Agenda.**

**10. Holdbacks**

**11. Grazing Lease Rental Rate**

- **EXECUTIVE SESSION**

**A. To Consider Personnel Matters [Idaho Code § 67-2345(1)(b)] – This item was withdrawn.**

There being no further business to come before the board, the meeting adjourned at 11:30 a.m.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/ Dirk Kempthorne

President, State Board of Land Commissioners and  
Governor of the State of Idaho

/s/ Pete T. Cenarrusa

Pete T. Cenarrusa  
Secretary of State

/s/ Winston A Wiggins

Winston A Wiggins  
Director

<p>The above-listed final minutes were approved by the State Board of Land Commissioners at the November 12, 2002 regular Land Board meeting.</p>
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